

# **Report of the auditor-general to the Gauteng Provincial Legislature and the council on the Lesedi Local Municipality**

## **Report on the financial statements**

### **Introduction**

1. I have audited the financial statements of the Lesedi Local Municipality set out on pages x to x, which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 10 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Lesedi Local Municipality as at 30 June 2016 and its financial performance and cash flow for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA.

## **Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Significant uncertainties**

8. As disclosed in note 42 to the financial statements, the municipality is the defendant in a number of legal cases. The ultimate outcome of these matters cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

### **Restatement of corresponding figures**

9. As disclosed in note 44 to the financial statements, the corresponding figures for June 2015 have been restated as a result of errors discovered in the financial statements of Lesedi Local Municipality during the year ended 30 June 2016.

### **Material losses**

10. As disclosed in note 56 to the financial statements, material losses amounting to R29 754 908 (2014-15: R17 509 431) were incurred as a result of electricity distribution losses which represent 19% (2014-15: 14%) of total electricity purchased. The total technical losses of electricity amounted to R7 796 804 (2014-15: R6 467 545). Non-technical losses amounted to R21 958 104 (2014-15: R11 041 886) and are due to unauthorised consumption, tampering and faulty meters.

### **Material impairments**

11. As disclosed in note 11 to the financial statements, material impairments to the amount of R362 519 301 (2014-15: R317 386 224) representing 80% (2014-15: 85%) of consumer debtors were incurred, as the recoverability of these amounts is doubtful.

### **Additional matter**

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.

## Unaudited disclosure notes

13. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## Report on other legal and regulatory requirements

14. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## Predetermined objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2016:
  - Objective 2: Basic service delivery on pages x to x
  - Objective 3: Local economic development on pages x to x
  - Objective 4: Financial viability and financial management on pages x to x
16. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).
17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. The material findings in respect of the selected objectives are as follows:

### **Objective 2: basic service delivery**

#### Usefulness of reported performance information

19. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA), requires the integrated development plan (IDP) and the service delivery budget implementation plan (SDBIP) to form the basis for the annual report, therefore requiring consistency of indicators and targets between planning and reporting documents. Important reported indicators and targets were not consistent with those in the approved IDP and SDBIP.
20. The FMPPI requires that performance indicators and targets should be specific in clearly identifying the nature and required level of performance and measurable. Important targets were not specific and measurable.

21. The FMPPI requires that performance indicators and targets should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. Important indicators were not well defined.

### Reliability of reported performance information

22. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not reliable when compared to the source information or evidence provided.

## **Objective 3: local economic development**

### Usefulness of reported performance information

23. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA), requires the integrated development plan (IDP) and the service delivery budget implementation plan (SDBIP) to form the basis for the annual report, therefore requiring consistency of indicators and targets between planning and reporting documents. Important reported indicators and targets were not consistent with those in the approved IDP and SDBIP.

### Reliability of reported performance information

24. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not reliable when compared to the source information or evidence provided.

## **Objective 4: financial viability and financial management**

### Usefulness of reported performance information

25. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA), requires the integrated development plan (IDP) and the service delivery budget implementation plan (SDBIP) to form the basis for the annual report, therefore requiring consistency of indicators and targets between planning and reporting documents. Important reported indicators and targets were not consistent with those in the approved IDP and SDBIP.
26. The FMPPI requires that performance indicators and targets should be specific in clearly identifying the nature and required level of performance and measurable. Important targets were not specific and measurable.
27. The FMPPI requires that performance indicators and targets should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. Important indicators were not well defined.
28. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. Important indicators were not verifiable.

## **Reliability of reported performance information**

29. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not reliable when compared to the source information or evidence provided.

## **Additional matter**

30. I draw attention to the following matter:

### **Achievement of planned targets**

31. Refer to the annual performance report on page(s) x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected programme reported in paragraphs 19 to 29 of this report.

## **Compliance with legislation**

32. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

### **Annual financial statements**

33. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of consumer deposits, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

### **Procurement and contract management**

34. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by the Supply Chain Management (SCM) regulation 17(a) & (c).
35. The preference point system was not applied in identified procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1) (a).
36. The performance of contractors or providers were not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

## **Expenditure management**

37. Reasonable steps were not taken to prevent and detect unauthorised expenditure, fruitless and wasteful expenditure and irregular expenditure as required by section 62(1)(d) of the MFMA.
38. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
39. The performance of contractors or providers were not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

## **Consequence management**

40. Unauthorised expenditure incurred by the municipality in the prior year was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

## **Internal control**

41. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on non-compliance with legislation included in this report.

## **Leadership**

42. The accounting officer did not adequately perform oversight responsibility over financial and non-financial reporting resulting in material amendments to the financial statements and non-compliance with the MFMA and SCM legislation.
43. The action plan developed to address audit findings was not fully monitored and implemented on procurement and contract management and financial and performance reporting by the appropriate level of management.

## **Financial and performance management**

44. Management did not have effective monitoring controls in place to ensure that the financial statements and performance reports were supported by complete, relevant and accurate information.
45. Management did not effectively monitor compliance with procurement and contract management as required by the MFMA.

## **Governance**

46. The risk management unit and internal audit unit were not effective during the year. Adequate risk assessments were not conducted and regular and timely internal audits were not performed. As a result, there were significant control deficiencies relating to preparation of financial and performance reports and compliance with legislation.

Auditor-General

Johannesburg

30 November 2016



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